

Message Text

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ORIGIN NEA-10

INFO OCT-01 ISO-00 EB-08 FTC-01 AID-05 CIAE-00 COME-00
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 DOE-15 SOE-02
SS-15 NSC-05 H-01 L-03 /103 R

DRAFTED BY NEA/ARP:RMERRICK:SLB
APPROVED BY NEA/ARP:JWTWINAM
EB/ORF:SWBOSWORTH
-----056902 091218Z /40

R 081958Z SEP 78
FM SECSTATE WASHDC
TO AMEMBASSY JIDDA
INFO AMCONSUL DHAHRAN
USLO RIYADH

C O N F I D E N T I A L STATE 228204

E.O. 11652: GDS

TAGS:EGEN, BEXP, EINV, SA

SUBJECT:STATUS REPORT ON JUBAIL PETROCHEMICAL PROJECT

1. S.G. STILES, VICE PRESIDENT SHELL OIL AND LEWIS
HOFFACKER, SHELL CONSULTANT, CALLED ON DEPARTMENT
OFFICIALS SEPTEMBER 6 TO GIVE STATUS REPORT ON SHELL'S
2.2 BILLION DOLS. JOINT VENTURE PETROCHEMICAL PLANT
WHICH WILL BE KEY FACILITY IN JUBAIL INDUSTRIAL COMPLEX
AND SYMBOL OF SAUDI INDUSTRIAL DEVELOPMENT EFFORT. STILES
REPORTED THAT PROJECT IS "STALEMATED" BECAUSE OF INABILITY
OF SAUDI BUREAUCRACY TO MAKE NECESSARY DECISIONS. SHELL
IS CONCERNED BECAUSE OF IMPLICATIONS BOTH FOR ITS
INVESTMENT AND FOR USG.

2. SHELL HAS TWO BASIC REQUIREMENTS FOR ITS PARTICIPATION:
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(A) ASSURED LONG-TERM SUPPLIES OF CRUDE OIL FROM SAUDI
ARABIA; AND (B) AT LEAST AS GOOD A RETURN FOR JOINT
VENTURE INVESTMENT AS THEY WOULD RECEIVE FROM SIMILAR
FACILITY IN THE U.S. RE ASSURED PETROLEUM SUPPLIES,
SHELL THOUGHT THAT THEY HAD NEGOTIATED AN AGREEMENT LATE
IN 1975 WHEREBY SAUDI ARABIA WOULD SUPPLY 350,000 BPD OF
CRUDE FOR 20 YEARS. HOWEVER, MANAGEMENT OF SHELL'S JUBAIL

PROJECT IN 1976 WAS SHIFTED FROM PETROMIN TO MINISTRY OF
INDUSTRY AND SUPREME PETROLEUM COUNCIL HAS NOT MET TO

APPROVE THIS CRUDE OIL ALLOCATION. CONCERNING SECOND
SHELL REQUIREMENT, THERE ARE STILL 15-20 OUTSTANDING
QUESTIONS TO BE RESOLVED CONCERNING PRIMARILY PRICING OF
INPUTS AND OUTPUTS WHICH WILL DETERMINE FINANCIAL
FEASIBILITY OF PROJECT. PRINCIPAL PROBLEM APPEARS TO BE
INABILITY OF VARIOUS SAUDI ECONOMIC ORGANIZATIONS TO MAKE
NECESSARY DECISIONS.

3. MIN INDUSTRY AL-QUSAYBI HAS BEEN MAKING MAJOR EFFORT
TO RESOLVE THESE PROBLEMS. NONETHELESS, THUS FAR, HE HAS
BEEN UNABLE TO GET NECESSARY DECISIONS FROM VARIETY OF
ORGANIZATIONS INCLUDING PETROMIN AND MINISTRY OF PLANNING.
AT QUSAYBI'S INVITATION, JACK ST. CLAIRE, PRESIDENT OF
SHELL CHEMICAL AND EXECUTIVE VICE PRESIDENT OF SHELL OIL
WILL VISIT SAUDI ARABIA IN MID-OCTOBER TO MEET WITH CON-
CERNED SAUDI MINISTERIAL LEVEL OFFICIALS. IF THESE
MEETINGS FAIL TO RESOLVE OUTSTANDING ISSUES, AL-QUSAYBI
APPARENTLY WILL ASK FAHD TO RESOLVE OUTSTANDING DISPUTES.
SHELL PLANS TO BRIEF AMBASSADOR WEST ON OUTCOME OF THESE
DISCUSSIONS AND HAS PROMISED DEPARTMENT PAPER OUTLINING
ISSUES TO BE RESOLVED. AT THIS TIME, SHELL IS NOT ASKING
USG ASSISTANCE, BUT SIMPLY WISHES TO INFORM DEPARTMENT OF
THEIR EXTENSIVE PREVIOUS EFFORTS TO RESOLVE DISPUTED
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ISSUES AND POSSIBILITY IN THAT PROJECT MIGHT BE ABANDONED
IF SAUDIS UNABLE TO RESOLVE THESE TECHNICAL ISSUES.

4. SHELL CONSIDERS ALL OF THE ABOVE INFORMATION TO BE
PROPRIETARY AND HAS REQUESTED THAT IT BE PROTECTED.
INCIDENTALLY, BECAUSE OF SECTION 911 OF THE TAX LAW ONLY 32
OUT OF ALMOST 1000 EXPATRIATES TO BE EMPLOYED WHEN PLANT
IS FULLY OPERATIONAL WILL BE AMERICAN. CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 sep 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE228204
Document Source: CORE
Document Unique ID: 00
Drafter: RMERRICK:SLB
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780367-1074
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780986/aaaactqh.tel
Line Count: 102
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 13271054-c288-dd11-92da-001cc4696bcc
Office: ORIGIN NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 06 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1498849
Secure: OPEN
Status: NATIVE
Subject: STATUS REPORT ON JUBAIL PETROCHEMICAL PROJECT
TAGS: EGEN, BEXP, EINV, SA
To: JIDDA
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/13271054-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014